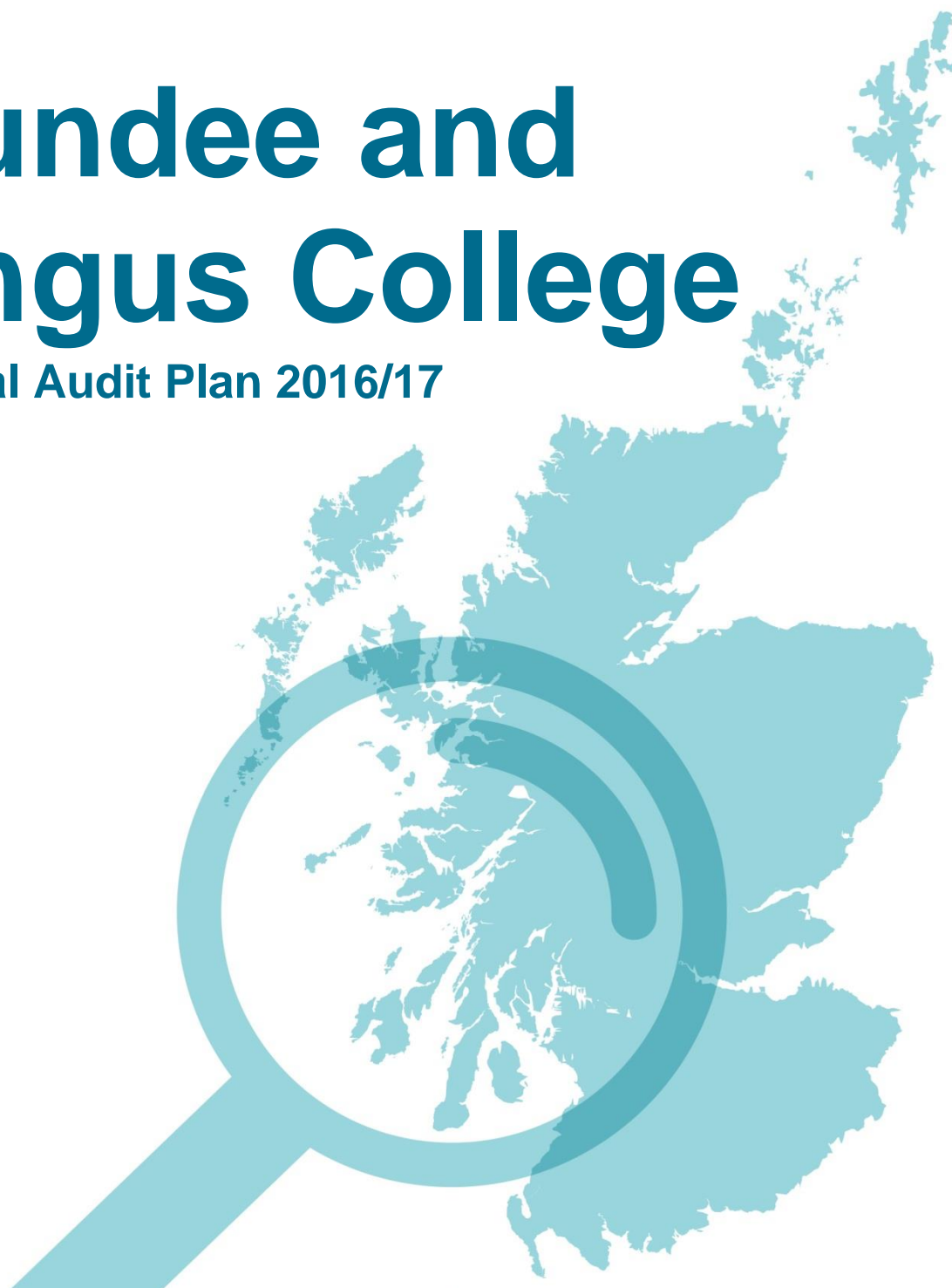


Dundee and Angus College

Annual Audit Plan 2016/17



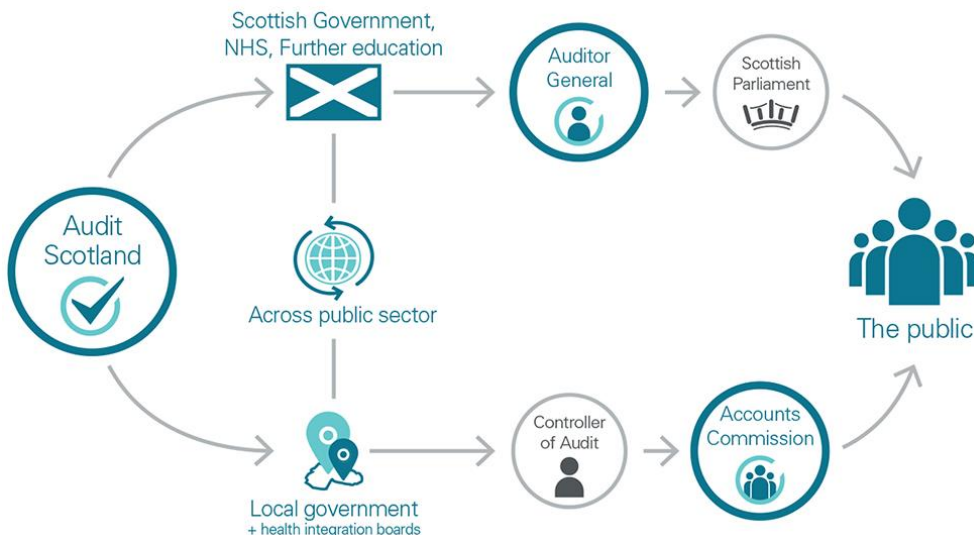
 AUDIT SCOTLAND

Prepared for Dundee and Angus College
February 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Dundee and Angus College. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Focused testing of accruals and prepayments</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income</p> <p>In accordance with ISA 240, professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk.</p> <p>The majority of the College's income is SFC funding. The College receives a range of other income which relates primarily to tuition fees and education contracts. This can be agreed to planned expenditure in the period. The risk of fraud is therefore not considered to be significant.</p>	<p>Financial Regulations and Procedures provide key controls over systems and processes.</p> <p>Robust programme of internal control and oversight by Audit Committee.</p> <p>Adequate segregation of duties, sound budget monitoring arrangements and accountability.</p> <p>Fees Policy approved by Finance & Property</p>	<p>SFC grant income vouched to receipt and reconciled to the funding allocation</p> <p>Analytical procedures on income streams</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk and significance</p>

Audit Risk	Management assurance	Planned audit work
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits).</p>	<p>In addition to above:</p> <p>Established procurement processes and systems with clear delegated authority limits.</p>	<p>Analytical procedures on expenditure streams</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the accounting estimates relating to the present value of defined benefit obligations under FRS102 and the present value of fixed assets. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Reliance upon competent suitably qualified professional valuers.</p> <p>Integrity of asset records and review by experienced staff.</p>	<p>Completion of 'review of the work of an expert' of the professional valuers</p> <p>Focused substantive testing of key areas</p>
<p>5 Pension Liabilities</p> <p>The College accounts for its membership of Tayside Pension Fund in accordance with FRS 102.</p> <p>The actuarial valuation methodology relies on judgement and assumptions in relation to financial, demographic and mortality factors. The valuation process also relies on the data provided by the College to the actuary being accurate, complete, timely and verifiable.</p> <p>The actuarial input in valuing the Fund could be affected by incomplete or inaccurate information, reliance on source data which is not fully validated or the use of unreasonable assumptions.</p>	<p>Reliance upon accuracy of pension scheme data provided directly to actuaries appointed by the Fund.</p> <p>Pertinent information provided by actuaries and college review of assumptions, which may be compared with other colleges and subject to revision if agreed with auditors.</p>	<p>Assess the reliability, professional competence capability and objectivity of the actuary as experts on whom reliance is placed.</p> <p>Review of the financial assumptions underlying the actuary's calculations</p> <p>Review PwC report assessing actuarial processes</p> <p>Testing/agreement of membership data used by the actuary to data from the pension fund</p> <p>Agree actuarial reports to financial statements disclosures</p>
<p>6 Gardyne Theatre Ltd</p> <p>Gardyne Theatre Ltd (GTL) is a 100% owned subsidiary of the College. The theatre has a 48% ownership of an associate company, Jackie the Musical Ltd, responsible for the tour of Jackie the Musical. Jackie the Musical was a loss making tour in 2015/16.</p> <p>A loan repayment of £140k to the college is due from the Theatre to the college in March 2017.</p> <p>A review of the way in which the College and GTL are linked financially, and the management and operating structure of the theatre is currently underway with a clear proposal as to the future operation of the Theatre to be brought to the meeting of the Finance and Property Committee in March 2017.</p> <p>The £140k loan repayment may impact negatively on the College's results if not repaid, or if a reasonable solution for</p>	<p>Ongoing discussions with subsidiary auditors.</p> <p>Review of options appraisal by Finance & Property Committee.</p> <p>Provision of clear consolidation calculations.</p>	<p>Review group questionnaire from Henderson Loggie, auditor of GTL.</p> <p>Request draft accounts of GTL in advance of the Dundee & Angus College financial statements audit.</p> <p>Carry out testing of the consolidation calculations to ensure completeness, accuracy and appropriate disclosure of the figures</p>

Audit Risk	Management assurance	Planned audit work
<p>repayment is not found. There is a significant risk of the theatre not being able to continue on a going concern basis, which may impact on the College.</p>		
Wider dimension risks		
<p>7 Financial sustainability</p> <p>Funding to the sector has reduced significantly over the last 5 years, and there is now a risk of the core funding not matching the full range of the College's cost pressures. In addition, ONS reclassification has resulted in a loss of flexibility where the College can neither overspend nor underspend against the expenditure limits set by the Scottish Government. Any underspends are clawed back and Colleges can no longer use funding for depreciation to generate a surplus.</p> <p>A balanced financial outturn position is subject to managing emerging cost pressures and delivering savings plans. Recent budget monitoring reports highlight adverse variances against budget in staff and student related costs; and pay costs are forecast to exceed budget partly as a result of savings not being achieved as expected from a voluntary severance scheme. There is also a risk of the College not meeting its target credits which may result in a clawback of funding. The requirement to generate funds from operating activities to meet loan repayments further increases the risk to the College's financial sustainability.</p>	<p>Regular and timely production of accurate Management Accounts reviewed by budget holders and senior management.</p> <p>Mechanisms for reliable budget and frequent forecasts.</p> <p>Strong ownership of budgets and close monitoring of key risks.</p> <p>Scrutiny from Finance & Property Committee.</p> <p>Ongoing management of fiscal resource position and careful cash management.</p> <p>Scottish Funding Council monitoring.</p> <p>Risk Register overseen by Audit Committee.</p> <p>Generation of additional non-core resources is a strong focus for Curriculum Directors working in conjunction with Director of External Relations.</p>	<p>Review committee minutes and reports monitoring the financial position through the year, specifically any revisions to the Budget</p> <p>Carry out detailed 'cut off' testing to confirm expenditure and income has been accounted for in the correct financial year</p>
<p>8 Financial Management</p> <p>The College has a strategic plan for the period 2014-20, with financial plans prepared annually for the academic year ahead. The long term financial strategy is to achieve cash break even each year, however due to uncertainties surrounding funding, the College has no formalised medium to long term financial plan. This poses a risk for the College. There is a need for longer term planning to ensure the organisation continues to achieve its objectives.</p>	<p>Financial modelling with sensitivity analysis around critical factors. Identification of controllable items and clearly defined assumptions informs strategic decisions.</p> <p>Plans being formulated for identification of short, medium and longer term opportunities to reduce cost and exploit opportunities, together with necessary actions.</p>	<p>Follow up and review progress in the development of a financial strategy</p>
<p>9 Cyber Security</p> <p>The risk of cyber attacks on an organisation's IT systems and data is becoming increasingly evident. The effect of cyber attacks may include data loss, Data Protection Act related fines, financial and/or reputational loss. The risk to the College's IT systems and</p>	<p>Business Continuity Plan supported by ICT Disaster Recovery Plan.</p> <p>Robust firewalls and reliable anti-virus detection software.</p> <p>ICT Strategy, Records</p>	<p>Review the processes in place to ensure financial systems and data are resilient and secure.</p> <p>Review Dundee & Angus College's risk register.</p>

Audit Risk	Management assurance	Planned audit work
<p>data needs to be managed with effective mechanisms in place to protect them.</p>	<p>Management Policy. Internal Audit assignment scheduled to report to Audit Committee May 2017</p>	
<p>10 Workforce Planning</p> <p>Audit Scotland published a report on Scotland's Public Sector Workforce in November 2013 which focused on how organisations should plan to have the right skills in the right places at the right time. Development of a workforce plan, with appropriate succession planning for key posts should form an important and integrated part of the College's business arrangements.</p> <p>The College has developed an approach to workforce planning which is built into activities such as Curriculum Review and Course Approvals Processes. However the lack of clarity on funding beyond one year, together with the curriculum being very much demand led and therefore necessitating a significant number of different subject specialisms presents a problem for progressing workforce planning.</p> <p>There is a risk of impact on service delivery if an overarching workforce plan is not in place and regularly monitored.</p>	<p>Staffing regularly reviewed by senior management with consideration given to age, diversity, qualifications etc. Information informs organisational restructuring.</p> <p>Development needs regularly reviewed and integral to future visioning exercise currently being undertaken</p>	<p>Review the development of workforce planning processes.</p>
<p>11 Governance and accountability</p> <p>In September 2010 the Auditor General published a report on the role of boards. The report highlighted a number of key messages on the role of boards and how they are accountable to the Scottish Government and the Scottish Parliament, board members' skills and expertise and how boards operate. In the absence of effective governance, decision making and scrutiny arrangements, together with high standards of behaviour demonstrated by staff and members there is a risk that bodies may not be acting in the public interest at all times</p>	<p>College is compliant with the principles of the Code of Good Governance for Scotland's Colleges, requiring externally facilitated evaluation every three years.</p> <p>Articles of Governance and Governance Manual.</p> <p>Board follows guidance and good practice approaches developed through the Governance Steering Group.</p> <p>Education Scotland framework includes evaluation of the Board Risk Management Policy</p>	<p>Complete a questionnaire on governance and accountability with the areas to be covered based on the recommendations in the 2010 report.</p>
<p>12 National Fraud Initiative</p> <p>The NFI data matching exercise, led by Audit Scotland, allows public bodies to investigate data matches, and if fraud or errors have taken place, stop payments and attempt to recover the amounts involved. The current data matching exercise collected data in October 2016</p>	<p>The College is committed to participating and will share the requisite data</p>	<p>Monitor the College's participation and progress with the NFI process.</p> <p>Complete an NFI questionnaire which will reflect the College's NFI activity</p>

Audit Risk	Management assurance	Planned audit work
<p>and match investigation work has started earlier this year. Without appropriate processes in place to review the matches identified by NFI there is a risk that fraudulent payments are undetected.</p>		

Reporting arrangements

3. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.
5. We will provide an independent auditor's report to Dundee and Angus College and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Plan	17 February 2017	7 March 2017
Key Controls Report	31 March 2017	16 May 2017
Annual Audit Report including ISA 260 requirements	31 October 2017	31 Dec 2017
Signed Independent Auditor's report	30 November 2017	N/A

Audit fee

6. The agreed audit fee for the 2016/17 audit of Dundee and Angus College is £23,190. In determining the audit fee, we have taken account of the risk exposure of Dundee and Angus College, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 18th September.
7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

8. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

9. The audit of the financial statements does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Dundee and Angus College and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Dundee and Angus College will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

13. We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the college and its group as at 31 July 2016 and of their surplus for the year then ended;
- whether they have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- whether they have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Dundee and Angus College are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the latest audited accounts for 2015/16.	£417,000
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of planning materiality.	£313,000
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£20,000



15. We review and report on other information published with the financial statements including the Performance report, the Accountability report which encompasses corporate governance; and detail of remuneration and staff. Any issue identified will be reported to the Audit Committee or equivalent.

Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited Dundee and Angus College's financial statements with complete working papers package	18 September
Latest date for final clearance meeting with Head of Finance	5 October
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	31 December
Independent auditor's report signed	31 December

Internal audit

17. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Henderson Loggie.

Adequacy of Internal Audit

18. As Henderson Loggie are the internal auditors for a number of shared clients with Audit Scotland, we have completed a central review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards (PSIAS). We are satisfied that the internal audit function is effective, operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

Areas of Reliance

19. Based on our initial review of internal audit's plan for 2016/17 and reports issued to date, in order to support our audit opinion on the financial statements and to avoid duplication of effort, we plan to place formal reliance on the following internal audit reviews:

- Payroll follow up
- Budgetary Control
- Procurement & Creditors/Purchasing

20. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Business Development
- IT Network arrangements/Strategy
- Credits Audit Scotland Bursary, Childcare and Hardship funds.

Audit dimensions

21. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Financial sustainability

22. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the

body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Dundee and Angus College can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

23. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- Whether Dundee and Angus College has arrangements in place to ensure systems of internal control are operating effectively
- whether Dundee and Angus College can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Dundee and Angus College has assured itself that its financial capacity and skills are appropriate
- whether Dundee and Angus College has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

24. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- Whether Dundee and Angus College can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

25. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- Dundee and Angus College can provide evidence that it is demonstrating value for money in the use of its resources
- Dundee and Angus College can demonstrate that there is a clear link between money spent, output and outcomes delivered
- Dundee and Angus College can demonstrate that outcomes are improving
- There is sufficient focus on improvement and the pace of it.

Independence and objectivity

26. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

27. The engagement lead for Dundee and Angus College is ?????. Auditing and ethical standards require the appointed auditor **Insert name** to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Dundee and Angus College.

Audit team

28. The local audit team will be led by the Senior Audit Manager, Carol Hislop, who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in **Exhibit 6**. The audit team will be supplemented by additional staff during peak times.

Exhibit 6

External audit team

Name	Experience
Gordon Smail BSc, CA <i>Assistant Director</i>	Gordon has extensive experience of public sector audit gained over 25 years with Audit Scotland and the Accounts Commission. He has led a range of performance audits, including national performance audits and Best Value audits in councils. Gordon has recently been responsible for both the financial and performance audit elements of the Scottish Government audit.
Carol Hislop BA, CA <i>Senior Audit Manager</i>	Carol has 14 years experience of public sector audit with Audit Scotland, covering local government, health and central government. In recent years she has been involved in the external audit of bodies in the NHS and local government sectors. She has a lead role in the recruitment and training of Audit Scotland’s Professional Trainees.
Susan Blyth BCom, CA <i>Senior Auditor</i>	Susan has worked in external audit in the private sector and also in Local Government Internal Audit. Since joining Audit Scotland in 2001 she has worked across local government, NHS and central government audits.
Marta Kuzma BScEc (Hons), MLitt <i>Professional Trainee</i>	Marta joined Audit Scotland in October 2015 as a professional trainee. She is currently studying for the ICAS qualification.

Quality control

29. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and

legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

30. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

31. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Dundee and Angus College

Annual Audit Plan 2016/17

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